The Effect of Channel Awards on Company Value

Abstract

Using signaling theory, this event study aims at determining the effect of announcements about marketing channel awards on recipient company value. The dataset consists of press releases announcing awards to U.S. public companies (1993-2012), matched with financial data. The analysis focuses on award recipients (n=178 events). Results indicate that there are no positive abnormal returns associated with channel award announcements; and there is also no difference when taking the source (individual company or external stakeholder) of the award into account. Returns are positive, however, when awards are presented at dedicated events and to firms operating in concentrated industries. In effect, investors appear to value awards primarily for their visibility in recognizing channel players and for their differentiation potential in concentrated markets.

Keywords: *Event analysis, signaling theory, channel awards, channel relationships, marketing-finance interface*

Track: *Business-to-Business Marketing*

1. Introduction

Awards, prizes and other forms of recognition to firms are a widespread phenomenon in today's marketplace (Frey & Neckermann, 2008). In the industrial distribution sector, top performing distributors are frequently recognized with awards such as "Distributor of the Year" or "Best Distributor" by leading companies such as IBM, Oracle and Microsoft, as well as by industry associations and journals such as the Business Technology Association and CRN, respectively. Awards serve an important function in business-to-business relationships in terms of motivating partners and recognizing their exceptional performance (Anderson, Narus & Narayandas, 2008; Gilliland & Bello, 2001). Awards can also provide social recognition that gives visibility to the firm beyond the specific—in the context of this research, channel—relationship (Frey & Neckermann, 2008). As such, awards can be thought of as 'signals' to outsiders about otherwise hardly observable qualities of the recipients (Basuroy, Desai & Talukdar, 2006; Connelly, Certo, Ireland & Reutzel, 2011). Previous research indicates that investors value the signaling of awards in areas such as quality improvement, human resources management or effective use of information technology, suggesting a revised/positive evaluation of financial returns for these firms (Arthur & Cook 2009; Hendricks & Singhal, 1996). Yet, when it comes to studying channel awards, the extant literature has focused primarily on their impact on within-channel relationships, rather than on their signaling effect to the external community concerned with evaluating firms from a financial standpoint. As noted by Gielens and Geyskens (2012), there is a need to better understand financial valuation of distribution-related activities. Thus, a relevant question is: does company commitment to excellence in performing distribution activities that are acknowledged through channel awards also have a positive pay-off from a financial evaluation standpoint?

This paper addresses this question by means of an empirical investigation of the 'financial impact'—i.e., impact on the stock market value—of channel awards on recipient firms. The theoretical foundation of the study is signaling theory (Connelly et al., 2011; Spence, 1973), because previous studies have looked at awards as 'signals' (Balasubramanian, Mathur & Thakur, 2005; Basuroy et al., 2006). This research investigates both the main effect of channel awards as signals, and their varying effectiveness depending on three contingencies reflecting current practice: (1) who sends the signal (individual firm versus external stakeholder organization); (2) under what circumstance is the award presented (e.g., during a dedicated event); and (3) the competitive context or industry structure (i.e., recipient firms operating under varying levels of industry concentration). We use 'event study' as a methodology by which to estimate the abnormal return—that is, the change in stock price—due to a specific event (i.e., receipt of channel award), reflecting the reactions of investors to the event itself (Binder, 1998; Fama, Fisher, Jensen & Roll, 1969; MacKinlay, 1997). The dataset for the analysis consists of 178 announcements of channel awards received by U.S. publicly-traded companies from 1993 to 2012. The results of this analysis contribute to the current body of knowledge at the marketing-finance interface, exploring the links between marketing activities and financial returns, in the specific area of channel relationships. The research also provides indications for managers regarding whether and under which conditions, investors reward companies for their excellence in distribution activities.

2. Literature review

In line with previous marketing and management studies focusing on the signaling function fulfilled by awards (Basuroy et al., 2006), this study draws on signaling theory to formulate a set of four hypotheses (Connelly et al., 2011; Spence, 1973). Hypothesis one predicts a positive impact of channel awards on the recipient firm's stock value. As signals, awards allow

outsiders to distinguish between products/organizations that are of higher quality versus others (i.e., those recognized by awards versus those that have not been rewarded) (Basuroy et al., 2006). As higher quality firms are typically expected to outperform their competitors, previous research has documented a positive relationship between awards received and company (or product) performance in different domains (Arthur & Cook, 2009; Balasubramanian et al., 2005; Gemser, Leenders & Wijnberg, 2008; Hendricks & Singhal, 1996). Therefore, in the channel setting at the center of this investigation, it is expected that channel awards allow investors to identify distributors that are strong performers, that have a positive relationship with their partners and that excel over competitors. This information may lead to revised, more positive, expectations with regard to the award recipient's future performance in the financial sphere (i.e., stock market price). Hence,

H1: Receiving channel awards positively impacts the market value of recipient firms.

Hypothesis two deals with the source of channel awards and predicts a varying impact on the value of recipient firms, depending on source. This hypothesis is aligned with signaling theory, which states that the characteristics of the sender of the signal affect the impact of the signal itself (Connelly et al., 2011; Gemser et al., 2008). In this study, the sender is the organization presenting the channel award and includes both private and public firms as well as external stakeholder organizations such as trade/industry associations and trade journals. Hendricks and Singhal (1996) explain the greater effectiveness of awards that come from external stakeholders due to their objectivity and prestige compared to awards coming from individual firms. Awards given by the former are seen as providing a stronger signal for the investor as they reflect broader, more objective, assessments than those given by the latter. Hence,

H2: The effect of channel awards on recipient firm market value is higher when the source of the award is an external stakeholder organization versus an individual company.

The third hypothesis predicts a different impact of awards on recipient firm value depending on the circumstances of the award is presentation. Signaling theory predicts that the manner in which signals are sent contributes to their effectiveness (Connelly et al., 2011). Channel awards are often given by firms during specific marketing events (e.g.,Cisco Partner Summit). Such events are typically a key component of the marketing communication mix of these firms, being functional for signing contracts, exchanging information and developing business relationships (Sharland & Balogh, 1996). As a result, the social recognition of awards (Frey & Neckermann, 2008) is likely to be enhanced when they are presented during dedicated events, compared to awards that do not incorporate this 'public' dimension. Hence,

H3: The effect of channel awards on the market value of recipient firms is higher when the award is presented during a dedicated event.

Hypothesis four builds on a key contention in signaling theory that the context in which the signal is sent influences its effectiveness (Connelly et al., 2011). Among the contextual factors relevant in the industrial distribution sector, the growing level of industry concentration is among the strongest (Tompkins International, 2013). Typically, as an industry becomes more concentrated, competitive activities among firms shift from price based to non-price based, such as advertising and innovation, as the latter allow for more differentiation among firms (Davies & Lyons, 1984; Ramaswamy, Gatignon & Reibstein, 1994). This study views channel awards as contributing to non-price based competition because channel relationships are among the intangible assets that firms can leverage in order to achieve competitive differentiation (cfr. Srivastava, Shervani & Fahey, 1999). In other words, as industry concentration increases, excellence in channel relationships as reflected by the receipt of a channel award becomes more important for purposes of differentiation. At the same time, industry concentration affects how relationships among distributors and manufacturers develop. In highly con-

centrated scenarios, there typically is a small number of large distributors who often have expectations of "being dealt with more like employees,…[being] given directions… [and being] rewarded for good performance" (Hanmer-Lloyd, 1996:182-183). Hofer, Jin, Swanson, Waller and Williams (2012) show that, in concentrated industries, the increased presence of the relational element ensures positive performance and pay-off for channel members. In such cases, a more prominent role for channel awards can be predicted.

H4: The effect of channel awards on the market value of the recipient firm is higher in more concentrated markets.

3. Research Method

The research adopts event study methodology to investigate the effect of channel awards on recipient firm stock market value. The study examines security price movements around specific events with a known 'time stamp' (Binder, 1998; Fama et al., 1969; Srinivasan & Hanssens, 2009), and is built on the 'efficient market' hypothesis, according to which markets operate under conditions of perfect information and rational investors. Under this hypothesis, the stock price integrates all public information (Fama, 1970; Srinivasan & Bharadwaj, 2004), where unexpected events bringing new information are reflected in the stock price (Srinivasan & Bharadwaj, 2004). Event study methodology is appropriate for our investigation because receiving a channel award is an event that cannot be known in advance by investors and also has a known time stamp. The standard protocol for event studies was followed in designing and conducting the research (Binder, 1998; MacKinlay, 1997; McWilliams & Siegel, 1997) with data collected via content analysis of press releases as well as from CRSP, Compustat and I/B/E/S. The event of interest is the channel award announcement in a press release; the 'stamp date' is the date of the press release as it represents the first instance in which the news becomes publicly available, in line with signaling theory (Agrawal & Kamakura 1995; Connelly et al., 2011). A search of Lexis Nexis and Factiva databases, covering a period of 20 years (1993-2012), led to 2,607 press releases. After several filtering stages, including eliminating scenarios involving potentially confounding events during or close to the event—e.g., dividend announcements, mergers, litigations, etc. (McWilliams & Siegel, 1997)—the final sample consisted of 178 press releases.

The dependent variable is the abnormal return (AR_{it}^{*}, equation (1) below), defined as "the actual ex post return of the stock during the course of the event window minus the expected normal return during the same time frame, had the event not taken place" (Srinivasan & Bharadwaj, 2004: 12). The benchmark model for the expected normal stock return ($E[R_{it}|X_t]$, equation (2) below) is the Fama and French (1996) three-factor-with-momentum model, as it explains a higher proportion of market inefficiencies (Carhart, 1997). The estimation window for the benchmark model consists of 100 days starting 46 days before the event (Karniouchina et al., 2009). AR_{it}^{*} is estimated by means of generalized autoregressive conditional heteroscedasticity (Garch) [1;1] specification, allowing "the conditional variance to change as a function of past-realized residuals and past variances" (Karniouchina et al., 2009: 251).

$$AR_{it}^{*} = R_{it} - E\,[R_{it}|X_t] \quad (1)$$

$$E\,[R_{it}|X_t] = \alpha_i + \beta_i\, R_{mt} + s_i\, SMB_t + h_i\, HML_t + u_i\, UMD_t + \varepsilon_{it} \quad (2)$$

Legend: AR_{it}^{*}= abnormal return; R_{it}= actual stock price return; $E\,[R_{it}|X_t]$= expected normal return; R_{mt}= return of the market portfolio estimated with CRSP equally-weighted index ; SMB_t = return difference between small and large firms; HML_t= return difference between firms with high and low book-to-market ratio; UMD_t = momentum factor, difference in average return between the highest 30 % performing companies minus the lowest 30 %; ε_{it} = zero mean disturbance term.

To test for H2 to H4, we used cross-sectional regressions performed on the abnormal returns aggregated across time for each security (MacKinlay, 1997; Srinivasan & Bharadwaj, 2004). The cumulative abnormal return (CAR_i, equation (3) below) is calculated as the sum of the daily abnormal returns in equation (1) over the event window of interest. In line with previous studies, we use short event windows (MacKinlay, 1997; Srinivasan & Bharadwaj, 2004), including the date of the event ($\tau_1 = 0$) and the next day ($\tau_2 = +1$) to allow investors to learn about the event if, for example, the press release is issued at the end of the trading day. CAR_i is used as the dependent variable in equation (4) (see below), which is the "cross-sectional regression model of abnormal returns on the characteristics of the event of interest" (Srinivasan & Bharadwaj, 2004:19), in our case, the type of award giver (H2), the event (H3), and the level of industry concentration (H4).

$$CAR_i(\tau_1, \tau_2) = \sum_{\tau=\tau_1}^{\tau_2} AR_{it}^{*} \quad (3)$$

$$CAR_i(0, +1) = \beta_0 + \beta_1 External + \beta_2 Private + \beta_3 Event + \beta_4 Concentration + \theta X_i + \eta_i \quad (4)$$

Legend: *External* = dummy variable, taking value of 1 if giver is an external organization, 0 if else (ref. category=public company). *Private* = dummy variable, taking value of 1 if giver is a private company, 0 if else (ref. category=public company). *Event* = dummy variable, taking value of 1 if award given during a dedicated event and 0 if else; *Industry Concentration* = Herfindahl–Hirschman index (HHI), sum of squares market share of top 4 firms in recipient's SIC code normalized (/10 000*100), lagged. *X* = vector of control variables, including: firm size, I/B/E/S no. of estimates, word count in the press release (PR) body; database for PR retrieval, taking value of 1 if LexisNexis, 0 if Factiva; newswire service, taking value of 1 if Business Wire, 0 if PR Newswire; PR issued from recipient; multiple recipients noted in PR; innovation; relationship; sales & promotion; technical support & logistics; subsidiary; NYSE; year; η_i = error term.

4. Results

H1 was tested by means of event analysis of the CAR provided by Eventus (Cowan, 2010). The mean CAR associated with a channel award is -.35%, with 77 positive and 101 negative AR in the sample. This result, however, was found not to be statistically significant in either parametric (i.e., cross-sectional t = -1.593) or nonparametric (i.e., generalized sign Z=-1.322) tests. Thus, the findings indicate that, in general, investors neither reward nor penalize recipients of channel awards. H2 to H4 were tested by means of cross-sectional regression (table 1). A robust regression with least trimmed squares (LTS) analysis was used to account for bad leverage and outliers in the sample (Hair, Anderson, Tatham & Black, 1998; Rousseeuw & Driessen, 1999). A regression model with no random effect was retained as there was no strong evidence in favor of data clustering due to repeated measures.

As shown in table 1, the data do not support H2; no significant difference was detected when taking the type of award giver into account (external stakeholder: β_1= 0.21, S.E. = 0.60; private company: β_2= 0.36, S.E. = 0.63). This suggests that investors do not place a different value on channel awards coming from different types of award givers. For H3, however, the results do support the positive effect on awardees' CAR of receiving a channel award during a dedicated event. The parameter for the variable of interest is positive and significant (β_3= 0.81, S.E. = 0.34, p <.05), suggesting that receiving an award during a dedicated event increases recipient CAR. The data also provide strong support for H4, predicting a positive effect on CAR when recipient firms operate in more concentrated markets. The effect of industry concentration was found to be positive and significant (β_4=0.06, S.E. = 0.02, p<0.001). As level of industry concentration increases, investors value more positively firms that receive channel awards. To assess the robustness of these results, several actions were undertaken (Karniouchina et al., 2009; MacKinlay, 1997), including: different estimation windows,

different event windows, different market indexes, OLS regression (detailed results available on request). Similar patterns were detected for the sign and significance levels of the coefficients, providing overall support for the robustness of the results.

Table 1: Results for Robust Cross-sectional Regression

			Beta (S.E.)	Pr>ChiSq
β_0	Intercept		-1.24 (0.94)	n.s.
β_1	External stakeholder award-giver	H2	0.21 (0.60)	n.s.
β_2	Private company award-giver	H2	0.36 (0.63)	n.s.
β_3	Dedicated event	H3	0.81 (0.34)	**
β_4	Industry concentration	H4	0.06 (0.02)	***
Controls (only significant variables reported)				
β_7	Press Release issued by recipient		-1.07 (0.47)	**
β_{17}	NYSE		-1.18 (0.46)	**
	Time as Fixed Effect		yes	
	R-Square		0.46	

Legend: * p <.10; ** p <.05; *** p <.001; n.s.= not significant; year of reference: 2011

5. Conclusions

This article enriches the body of literature at the marketing-finance interface that typically has paid only limited attention to distribution (Gielens & Geyskens, 2012). To our knowledge, this study is among the first to address the financial impact of channel management activities. Our findings show that, in general, channel awards do not translate into gains for recipient stock value. But, investors do place value on the social recognition function of awards, as underlined by their positive impact when presented at dedicated events, and on their contribution to differentiation in concentrated industries. In effect, the results highlight that, in addition to being an incentive to motivate partners, channel awards positively impact the recipient's stock market value under specific conditions. One important implication for managers is that, because awards presented during dedicated events appear to receive a premium return from investors, award-giving companies might emphasize these types of gatherings to showcase their awards and, with them, the importance they place on channel relationships. Some limitations of the study are acknowledged. First, the analysis focuses only on award recipients; a more complete picture might be obtained by looking also at award givers (analysis in progress). Second, the sample consists only of U.S. publicly traded companies. As countries differ in how pervasive is the practice of presenting prizes and awards (Frey & Neckermann, 2008), future research could adopt a cross-cultural perspective.

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